



## Bad Advice

Don't Increase Your Risk by Utilizing the Wrong Insurance Agent

[by Mary Joy Howes, Esq.]

**Chances are your community association may avoid a major catastrophe.** Unfortunately, however, bad things do happen and if it is your community that it happens to, it is important to be as prepared as possible. An uncovered or an underinsured loss may result in a significant loss assessment for the unit owners. Even one major loss can financially cripple a condominium. Additionally, the failure to do things efficiently over time can also have a dramatic negative impact on your community. Therefore, proper risk management is essential.

If you are reading *Condo Media*, you already know that the condominium form of ownership is different. This

also rings true when it comes to insurance, and condominiums have special insurance needs. The key to proper risk management is to have an insurance agent that is well-educated and experienced in insuring community associations who can competently advise the board regarding insurance coverage.

### INSURANCE GUIDELINES AND GUIDANCE

Section 34-36.1-3.13 of The RI Condominium Act dictates certain minimum guidelines for insurance. Additionally, the condominium documents often set out the types and amounts of insurance that are required to be in place for the specific community—sometimes,

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however, this may be outdated, or just simply not adequate.

Associations are often not receiving the proper guidance from their insurance agent. While the agent may be very experienced and competent in other areas, they often have little to no experience in insuring community

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associations. The following questions and comments have been made to me by board members of Rhode Island associations and demonstrate a lack of understanding of what is required to properly insure a condominium, its unit owners, and its board:

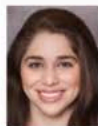
*My agent never asked for the condominium documents; I didn't know the condominium documents had a provision on insurance; What is D&O insurance?; What is Fidelity insurance?; We just had our agent copy the same policy that has been in place for years; The master policy covers my upgrades and personal property, right?; We don't have ordinance or law coverage, what is that?; I'm not sure if we have master insurance, but we all have HO6 policies; The insurance policy lapsed a couple months ago, we just haven't had a board meeting lately....*

Board members and management may be exposed to liability in the event that the condominium is underinsured or lacks the appropriate types and amounts of coverage. The board is often charged via the condominium documents for placing the proper insurance. If there is a management agreement in place, sometimes that responsibility is assigned to the property manager. Often the manager's responsibility is limited to the procurement of bids for insurance, with the ultimate responsibility of deciding on coverage resting with the board. More times than not, property managers and board members are simply relying upon the insurance agent to advise on what the appropriate limits of insurance are. Regardless, however, of who is to blame for an inadequate policy (which trying to prove liability won't be without much time and money), the key is to avoid this issue

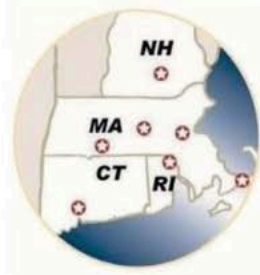
altogether and get the proper insurance in the first place. While boards and managers should do their due diligence and be able to ask the appropriate questions, they should be able to reasonably and confidently rely upon the recommendations made by the agent as to what the needs of the particular community association are.

If you are unsure about your current policy, you should have it reviewed by an insurance agent who specializes in this area. CAI is a wonderful resource

for finding an insurance agent in your region that has a focus on the community association industry. Having the appropriate individual evaluate your risk is the most powerful step toward reducing your risk. 



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